HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Halifax CMA

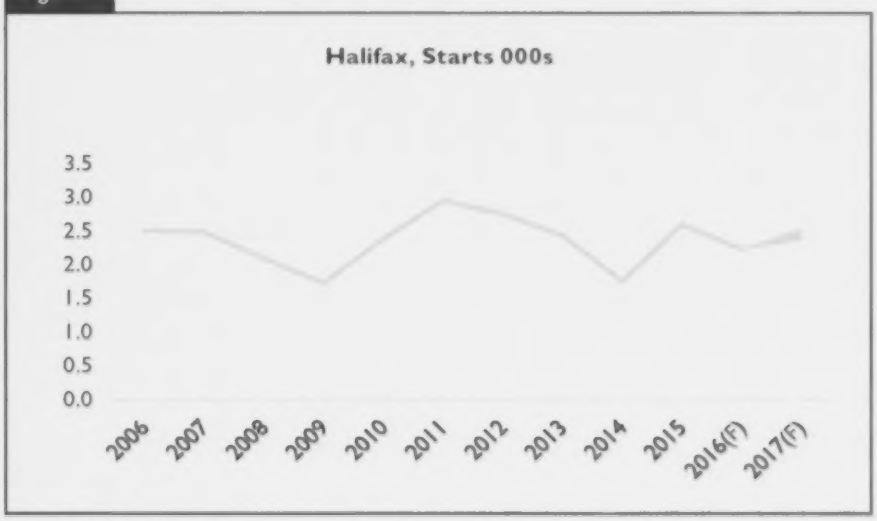
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2016

Highlights

- Residential construction activity to range between 2,165 and 2,235 units in 2016.
- Resale market will record sales increase; prices to stabilize.
- Vacancy rate to inch downward.
- Bulk of apartment construction to break ground on the Peninsula.

Figure 1



Source: CMHC, (F): Forecast

The outlook is subject to uncertainty. The forecasts and historical data included in this document reflect information available as of April 29th, 2016.

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Housing Activity in Halifax Remains Strong in 2016 and 2017

Residential construction activity in Halifax is expected to remain around its ten-year average of 2,373 units in both 2016 and 2017, but is expected to decline slightly from the 2,599 units started in 2015. Stronger demographic fundamentals, bolstered by intraprovincial migration as well as international migration, have increased demand for housing in the Halilfax CMA over the last year. While the labour market shows some growth in private investment notably, in construction projects and manufacturing, the added growth offsets a shrinking labour force.

Construction activity is expected to be dominated again this year by developers of purpose built rental apartments, as the interest rate is expected to remain at a standstill. However, a growing number of condominium projects are expected to break ground this year, which will add to the diversity of the apartment stock. Single-detached starts are expected to record marginal growth in 2016 and 2017 and will remain below the ten-year average of 886 units. The weaker trend will persist as employment levels of prime buyers of new singles, those in the 25-29 age group and 30-34 age group, continue to experience slow job growth post-recession.

Housing starts are forecast to range between 2,165 units and 2,235 units in 2016 before increasing to between 2,320 and 2,530 units in 2017. Over the forecast period, apartment starts will make up the lion's share of construction activity. Continued focus in the downtown of both Halifax City and Dartmouth City will provide opportunities to widen the diversity of products offered. Expect to see rental apartments and condominiums offered in different price points and footprints in those areas.

New Home Market: A Slow Ascent

The single-detached market experienced its third consecutive year of decline in 2015, falling by approximately 25 per cent per year over this period. Lower starts volume also has impacted the under construction segment of the industry which was accustomed to recording nearly a thousand starts a year. The negative interprovincial migration between most of the last decade combined with employment losses in the age group (30-34) typically associated with the new home market, has yet to show signs of a full recovery. As a result, the number of singles under construction was at 305 units as of the end December 2015 compared to 338 units the same period in 2014. Less activity has also been accompanied by an inventory of unabsorbed units that has now persisted for well over 24 months.

The distribution of inventory spans the entire Halifax CMA, with unabsorbed singles in all submarkets. Nearly half of the inventory is made up of singles priced under $300,000 and ranging between $400,000 and $499,999. At the same time, the market records higher absorption ratios in the higher price ranges, notably above $500,000. What this entails, is that households who are successful selling on the MLS® market reinvest in the new home market, assuming that the $500,000 and plus market is nearly exclusively reserved for repeat buyers. Accordingly, the price of a new single-detached home grew to $441,294 over the course of 2015, gaining further distance from the median price of $387,500. The growing gaps between these two price measures indicate a net interest for above average properties.

Despite the challenges over the forecast period, the new home market is expected to outpace 2015's construction activity because of demand for above average single-detached homes. Also, a slow recovery in employment, combined with a strengthening resale market, will provide support to the new home market. As a result, expect single-detached activity to range between 485 units and 515 units in 2016, and 505 units and 545 units in 2017.

The apartment construction segment recorded one of its strongest years in 2015 with nearly

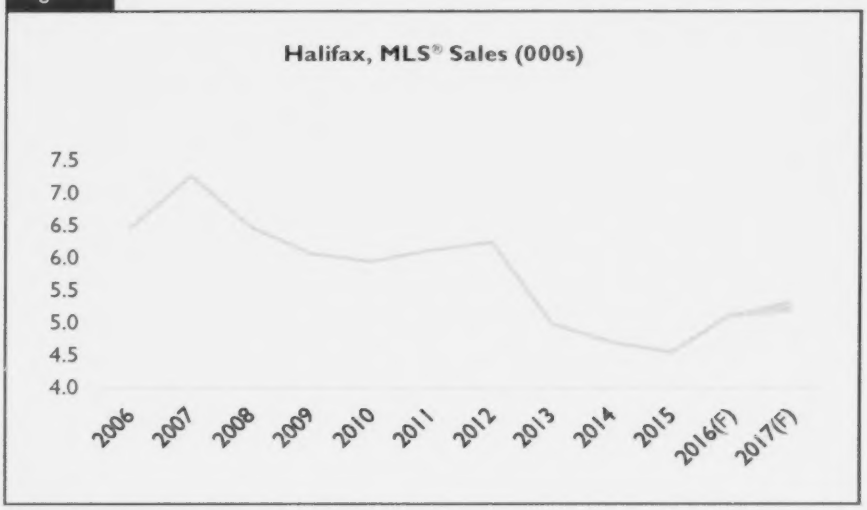
Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

2,000 units started. The bulk of these units were offered in rental tenure. What was unique about 2015 was the growing size of the condominium market in the Halifax CMA, which saw more than 378 units break ground over the last year. This is first time the condominium market has exceeded 250 units in the last ten years. All condominium starts in 2015 took place in Halifax City, marking a change from suburban activity in the condominium market. The return of condominium construction to the city core has widened the diversity of apartment living, while also providing units in different price ranges and footprints. The trend for urban living, whether in Dartmouth City or Halifax City, is slowly gaining a foothold. Over time, this will increase the competition for apartments overall, be it rental or owned. A number of projects are slated to break ground in 2016 and 2017, again in mixed use environments where apartment living provides easy access to retail amenities and city entertainment.

Figure 2



Source: Nova Scotia Association of REALTORS®, (F): Forecast

MLS® Sales to Rise While Price Remain Stable

While the resale market remained weaker than recent historical standards, 2015 marked a turning point. The first quarter of 2016 showed a sales increase of 17 per cent year-over-year, with sales rising in most submarkets. This trend is expected to continue for the remainder of 2016 and 2017, as the rental market supplies the resale market with a new cohort of buyers. As a result, expect sales volume ranging from 5,065 and 5,135 in 2016 and from 5,150 and 5,350 in 2017.

Demand for rental apartments from an ageing population continues to create irregularities in the market, where prospective sellers may not wish to remain owners but instead choose to exit homeownership. This, therefore, results in the slowing of market dynamics. However, small gains in employment in the younger age groups and a decline in the number of active listings stimulate market activity. The outcome is a much more balanced market than what was recorded since 2012.

At the submarket level, 2015 sales volume remained stable in all submarkets, with small gains recorded in Halifax City, Dartmouth City and Halifax County Southwest. Other submarkets recorded marginal losses which balanced activity in the Halifax CMA, allowing sales to inch up by 1.6 per cent year-over-year. Although active listings continue to decline on a monthly basis, most submarkets are expected to record sales increases over the next year.

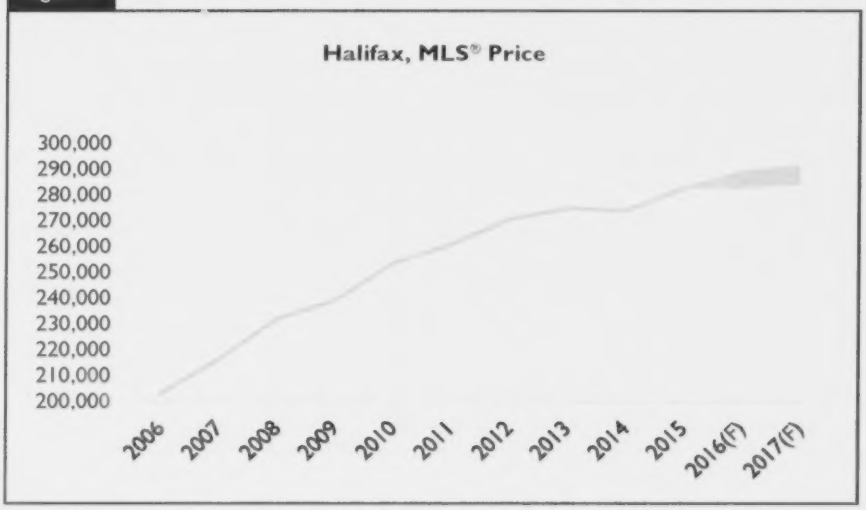
Price growth of 3.7 per cent in 2015 outpaced the targeted rate of inflation. The average resale home sold for $283,792 at the end of December compared to $273,770 the same period in 2014. Relative strength in Halifax City contributed nearly single-handedly to generate price growth at the Halifax CMA level, as prices grew by 10.2 per cent. Prices grew by 5.6 per cent in Halifax County Southwest. As previously released in the Housing Market Assessment, our models reported overvaluation in the Halifax market over much of 2014. As a result, prices are expected to remain in check going forward with real wage gains not expanding households' borrowing capacity beyond the current price growth of homes. Accordingly, expect price growth to moderate considerably in 2016, ranging between $282,665 and $289,335. In 2017, expect prices ranging between $284,145 and $291,855.

Demand for Rental Apartments Remain Strong, Yet Construction Slows

The construction of rental apartment units is expected to remain strong during the forecast horizon. Following the construction of 1,541 units in 2015, which nearly doubled 2014's output, the level of activity in 2016 will decline slightly, but this is not related to a decline in demand. The significant change in today's household composition spurring demand from ageing households who elect to downsize to smaller, maintenance free footprints still influences market demand. In 2016 and 2017, the bulk of rental apartment construction activity will take place on the Peninsula of Halifax with some activity in Dartmouth in 2017. Construction timelines are lengthening, especially for site work, as contractors must typically demolish older structures and remove debris before starting excavation. A considerable amount of planning is invested in those buildings, including design reviews and heritage preservation, which has a further impact on the construction schedule. Thus, expect multiples construction to range between 1,625 units and 1,775 units in 2016, before climbing up to a range of 1,760 and 2,040 units in 2017.

Demand for rental units will remain strong over the forecast period, as the supply added to the universe grew marginally over the last twelve months. Less than 700 units were added to the universe, much of it reflecting the starts activity in 2014. In addition, international migration and intraprovincial migration continued to support the growth of the population in Halifax, further tightening the rental market. Both demand and supply factors hint at a tighter rental market in 2016. Expect the vacancy rate to decline to 3.2 per cent in 2016, before bouncing back up to 3.6 per cent in 2017, as completed units increase the universe.

Figure 3



Source: Nova Scotia Association of REALTORS®, (F): Forecast

The average rent is expected to stabilize over the forecast period. Expect the average rent for a two-bedroom unit to reach $1,075 in 2016 and $1,110 in 2017. The rental market will remain a competitive housing option for those wishing to downsize or those relocating to Halifax in search of gainful employment.

Mortgage rates are expected to rise moderately from current levels in 2017

Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to gradually start rising from current levels in the first half of 2017. This expected profile for mortgage rates is in line with the Bank of Canada's view of the economy returning to its full capacity by the end of 2017, according to its April 2016 Monetary Policy Report.

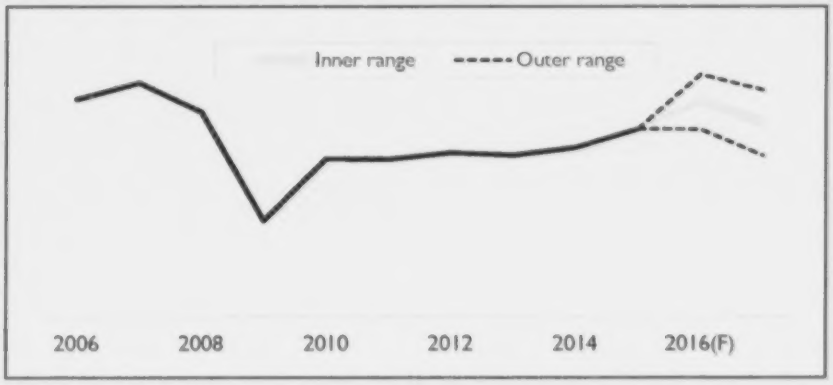
According to CMHC's base case scenario, the five-year mortgage rate is expected to be within the 4.4 to 5.0 per cent range in 2016 and within the 4.7 to 5.3 per cent range in 2017.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

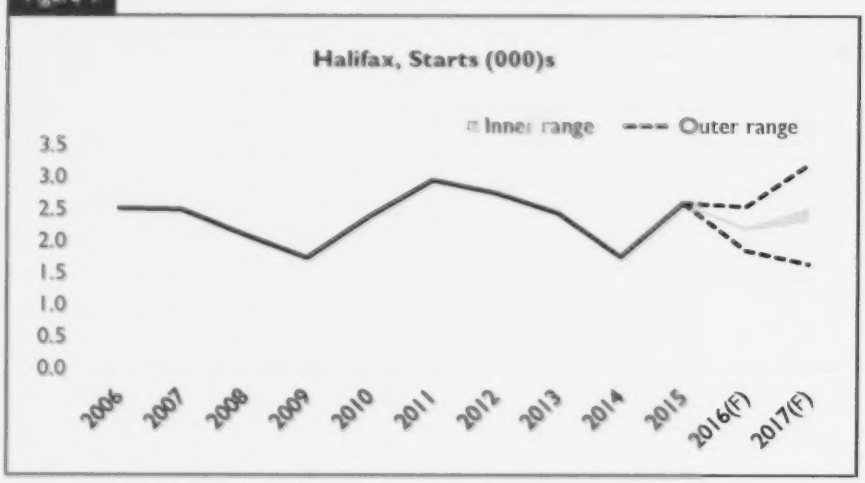
Trends at a glance

Key Factors and their Effects on Housing Starts	
Employment	Employment levels remained fairly stagnant in 2015 with minimal improvement recorded. Employment is forecasted to remain on this similar trend, seeing minimal growth in 2016 and 2017.
Income	As of the first quarter of 2016, real average weekly earnings have increased and are expected to see marginal growth in 2016 and 2017. This will provide some support for the singles market over the forecast period.
Net Migration	Positive international migration into the Halifax CMA will create net migration gains as the main source of population growth. This will continue to support strong levels of rental demand.
Natural Population Increase	Natural population growth will remain moderate. As our population continues to age, changes in household formation including demand for rental units will persist.
Resale Market	The demand for resale homes is expected to increase from 2015 levels as small employment gains in the younger age cohorts and a decline in the number of active listings will help stimulate market activity.
Vacancy Rates	International migration and an ageing population base will continue to drive rental demand. Rental supply added to the universe grew marginally over the last year which will support a vacancy rate that is expected to decline in 2016 and increase in 2017 as completed units expand the universe.

Forecast risks

- A level of uncertainty can pose some risks to the Halifax CMA economic and housing outlook, resulting in a wider range of possible outcomes versus our baseline view.
- The majority of the risks associated with the total housing starts forecast lie in the multiples segment, where a number of apartment buildings currently have their approvals in place and awaiting to commence construction. A delay in apartment construction starts could push the total housing starts forecast towards the lower bound of the wider range of 1,855 for 2016

Figure 4

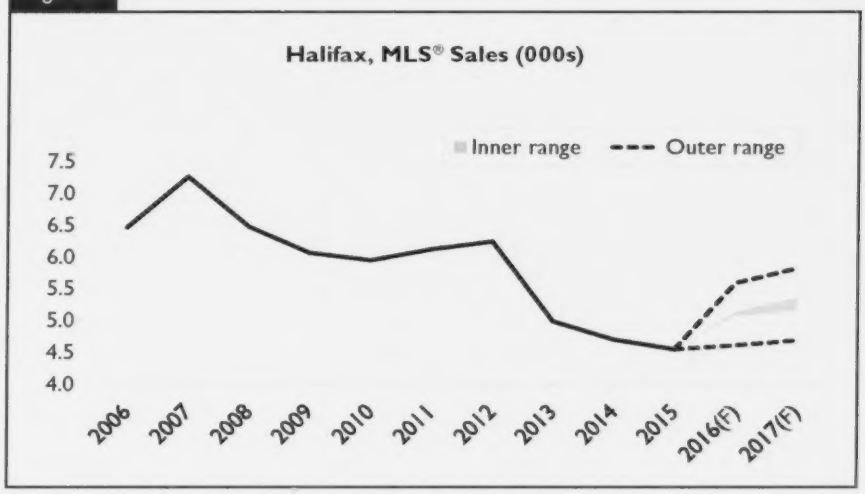


Source: CMHC, (F) Forecast

and 1,645 for 2017. Conversely, if the approvals process for developments currently awaiting final review speeds up, apartment construction could start more rapidly and could therefore result in the number of total housing starts reaching the upper bound of the wider range of 2,545 for 2016 and 3,205 for 2017.

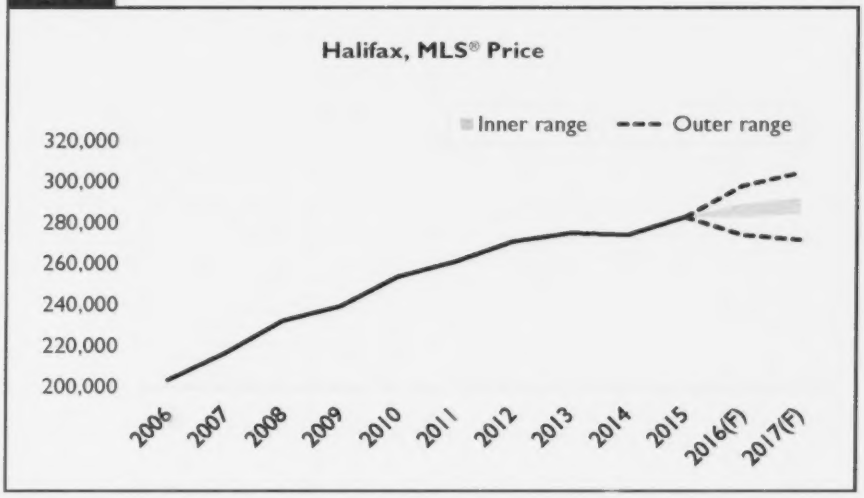
- Stronger levels of international migration into the Halifax CMA and interprovincial migration figures that increase more rapidly than expected, could create a favourable environment for a boost in the resale market, especially if real wage earnings in the 25-29 and 30-34 age segments see higher growth as well. This could push the sales forecast towards the upper bound of the wider range of 5,590 for 2016 and 5,815 for 2017. Slower international migration growth and interprovincial migration numbers that drop back to levels seen in previous years, could result in the sales forecast shifting towards the lower bound of the wider range of 4,610 for 2016 and 4,685 for 2017.
- Continued declines in the total number of active listings, coupled with an expansion in real wage growth in certain submarkets such as Halifax City, could increase household borrowing capacity which could result in the house price forecast drifting higher towards the upper bound of the wider range of $297,975 for 2016 and $304,410 for 2017. Conversely, if real wage growth remains stagnant, causing the average number of days on market for a home to inch up, home prices could move towards the lower bound of the wider range of $274,025 for 2016 and $271,590 for 2017.

Figure 5



Source: Nova Scotia Association of REALTORS®, (F): Forecast

Figure 6



Source: Nova Scotia Association of REALTORS®, (F): Forecast

Forecast Summary Halifax CMA Spring 2016							
	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
New Home Market							
Starts:							
Single-Detached	678	511	425	485	515	505	545
Multiples	1,761	1,246	2,174	1,625	1,775	1,760	2,040
Starts - Total	2,439	1,757	2,599	2,165	2,235	2,320	2,530
Resale Market							
MLS® Sales	5,007	4,698	4,773	5,065	5,135	5,150	5,350
MLS® Average Price($)	272,885	273,738	283,853	282,665	289,335	284,145	291,855
Economic Overview							
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.40	5.00	4.70	5.30

	2013	2014	2015	2016(F)	2017(F)
Rental Market					
October Vacancy Rate (%)	3.2	3.8	3.4	3.2	3.6
Two-bedroom Average Rent (October)($)	976	1,005	1,048	1,075	1,110
Economic Overview					
Population	409,996	413,554	417,847	423,000	427,000
Annual Employment Level	222,300	223,300	224,100	226,500	228,000

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range. (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Nova Scotia Association of REALTORS®. CMHC Forecast (2016-2017).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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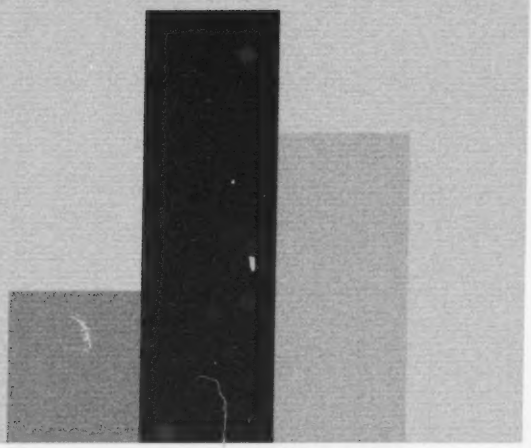

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